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# THE ROLE OF FINANCIAL INSTITUTIONS IN PROMOTING ENTREPRENEURSHIP AND ECONOMIC GROWTH

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## ABSTRACT

Financial institutions have a significant role in fostering entrepreneurship, economic development, and the expansion of small and medium-sized businesses. They provide entrepreneurs with funding options such as loans, venture capital, and crowdfunding so that they can invest in new technology, expand their operations, and create employment. In addition to providing entrepreneurs with counselling, training, and networking opportunities, financial institutions also offer support services such as business mentoring. In addition, they manage both their own and their customers' risks by adhering to regulations and policies. In addition to collaborating with other organisations, financial institutions cultivate an entrepreneurial ecosystem that encourages innovation and entrepreneurship. Financial institutions assist SME entrepreneurs in launching and expanding successful businesses, thereby generating jobs and contributing to economic expansion.

**Keywords:** Financial Institutions, Entrepreneurship, Economic Growth.

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## Introduction

### **Background**

For the overall development of the nation, there is a great role played by entrepreneurship and economic expansion. Entrepreneurship is the process of starting, growing, and running a new business endeavour with the intention of achieving a certain objective. On the other hand, economic expansion describes the rise in a nation's output of products and services. Financial organizations may encourage economic growth and entrepreneurship because they are both related. This paper will look at how financial institutions support entrepreneurship and economic expansion.

## 2. Literature Review

### **Financial Institutions**

Basically, Financial institutions are companies that offer both corporations and people financial services. These organizations consist of banks, credit unions, investment firms, insurance providers, and other organizations of the same nature (Demirguc-Kunt & Klapper, 2018). Because they make it possible for people to save, invest, and borrow money, financial institutions play a crucial role in the economy. These organizations further assist companies in managing risks, gaining access to money, and growing their operations

### **The Importance of Entrepreneurship and Economic Growth**

There is a robust association seen between economic expansion and entrepreneurship. process of establishing, growing, and overseeing a new company's endeavour to turn a profit is referred to as entrepreneurship. Entrepreneurs are risk-

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takers who see market openings and develop cutting-edge products and services to satisfy client wants. They are crucial for economic expansion because they foster employment growth, innovation, and the emergence of new sectors (Al-Mahrizi, and Al-Habsi, 2018).

### ***Role of Financial Institutions in Promoting Entrepreneurship***

When the anticipated assistance and funding are delivered, financial institutions play a crucial part in fostering entrepreneurship (Demirguc-Kunt & Klapper, 2018). One of the most crucial elements in beginning and expanding a business is capital. Entrepreneurs cannot bring their ideas to market without enough funding. Financial institutions offer capital in several ways, including loans, credit lines, and equity financing. Entrepreneurs may launch or grow their enterprises, as well as invest in cutting-edge research and development, thanks to these financial resources (Al-Mahrizi, and Al-Habsi, 2018).

Financial institutions further deliver a range of assistance services to business owners. They offer suggestions and direction on strategic planning, money management, and other critical facets of managing a successful company. Additionally, they provide networking opportunities and training courses so that business owners can share knowledge and grow their enterprises.

### ***Role of Financial Institutions in Supporting Economic Growth***

Financial institutions have the vital role in supporting economic growth by providing capital to businesses and individuals. They help businesses to invest in new technologies, expand their operations, and create jobs. They also help individuals to invest in their education, buy homes, and save for retirement. All of these activities contribute to economic growth and development.

Financial institutions aids in providing the flow of money in the economy. They provide a platform for people to save and invest their money, which in turn enables

businesses to access capital and grow. Financial institutions also help to manage risks in the economy by providing insurance and other risk management services (Al-Azri, and Al-Habsi, 2019).

SMEs are important drivers of economic growth and job creation in many countries. Financial institutions have the crucial role in providing financing to SMEs, enabling them to grow and contribute to the overall economy.

Financial institutions delivers financing to SMEs through various channels such as loans, lines of credit, and equity financing. In addition to providing capital, financial institutions also offer support services to help SMEs improve their operations and become more competitive in the market. These support services include business planning, financial management, and marketing.

By providing capital to businesses and individuals, financial institutions play a crucial role in promoting economic growth. They assist companies in investing in new technologies, expanding operations, and creating employment. Additionally, they assist individuals in investing in their education, purchasing residences, and saving for retirement. These activities all contribute to economic expansion and growth (Al-Azri, and Al-Habsi, 2019).

Furthermore, financial institutions facilitate the passage of money throughout the economy. They provide a platform for individuals to save and invest their money, thereby facilitating businesses' access to capital and expansion. Further, to supplying insurance and other risk management services, financial institutions serve to manage risks in the economy.

### **Capital**

By delivering capital to businesses and individuals, financial institutions play a crucial role in promoting economic growth. Businesses require capital to invest in new technologies, expand their operations, and generate employment. Capital is provided by financial institutions in various forms,

including loans, credit lines, and equity financing. Additionally, they assist individuals in investing in their education, purchasing residences, and saving for retirement. These activities all contribute to economic expansion and growth (Al-Azri, and Al-Habsi, 2019).

Prior lending capital to businesses or individuals, financial institutions evaluate creditworthiness and potential default risk (Demirguc-Kunt & Klapper, 2018). They evaluate several factors, including credit history, collateral, and business plan. After approval, financial institutions provide capital at an appropriate interest rate and repayment schedule. By providing capital, financial institutions help businesses and individuals accomplish their objectives and contribute to economic expansion (Demirguc-Kunt & Klapper, 2018).

### **Money Movement**

Financial institutions facilitate the economy's money flow. They provide a platform for individuals to save and invest their money, thereby facilitating businesses' access to capital and expansion. Additionally, financial institutions play a crucial role in the cross-border transmission of funds, which supports international trade and economic development (Al-Harrasi, and Al-Hinai, 2017).

Checking accounts, savings accounts, and investment accounts are some of the financial services offered by financial institutions to facilitate the flow of money. In addition, they offer payment services like wire transfers, credit card processing, and mobile payments. These services allow businesses and individuals to conduct transactions and transfer funds quickly and safely.

### **Risk Management**

Financial institutions play a crucial role in managing economic risks. They offer insurance and other risk management services to mitigate potential losses for enterprises and individuals (Fink and Steffen, 2018). Financial institutions encourage

economic growth and stability by managing risks. Financial institutions offer a variety of insurance products, including life insurance, health insurance, and property insurance, to secure individuals and businesses against unforeseen occurrences. In addition, they provide businesses with risk management services such as risk assessments, risk mitigation strategies, and disaster recovery planning (Al-Harrasi, and Al-Hinai, 2017).

### ***Role of Financial Institutions in Promoting Entrepreneurship***

Capital Financial institutions play a crucial role in fostering entrepreneurship by supplying entrepreneurs and small businesses with capital (Al-Harrasi, and Al-Hinai, 2017). Capital is necessary for launching and expanding a business, and financial institutions offer a variety of financing options, such as loans, credit lines, and venture capital. These financing options enable business owners to invest in their enterprises, engage personnel, and acquire equipment and supplies (Fink and Steffen, 2018).

Additionally, financial institutions offer alternative financing options, such as crowdfunding and peer-to-peer lending, that allow entrepreneurs to access capital from a large community of individual investors (Lin et al., 2018). These financing options are especially advantageous for entrepreneurs who may not qualify for conventional financing due to a lack of collateral or credit history (Fink and Steffen, 2018).

Financial institutions also provide entrepreneurs with business counselling, training, and networking opportunities, among other support services (Al-Balushi, and Al-Busaidi, 2019). These services help entrepreneurs acquire the skills necessary for launching and expanding their enterprises successfully. Financial institutions may provide seminars on business planning, marketing, and financial administration, for instance (Al-Harrasi, and Al-Hinai, 2017). They may also provide one-on-one counselling and mentoring to assist entrepreneurs in overcoming particular

obstacles (Lin et al., 2018).

### ***Role of Financial Institutions in Financing SMEs (Small and Medium-Sized Enterprise)***

#### **Financing Channels**

Financial institutions play a crucial role in SME financing by offering a variety of financing alternatives, such as loans, credit lines, and equity financing (Lin et al., 2018). These financing avenues enable SMEs to gain access to the capital necessary to invest in their enterprises, engage personnel, and acquire equipment and supplies (Ongena et al., 2019).

The alternative financing options offered by financial institutions, such as crowdfunding and peer-to-peer lending, can be especially advantageous for SMBs. These financing channels permit SMEs for accessing capital from a large pool of individual investors, which can help them surmount some of the obstacles associated with conventional financing options (Ongena et al., 2019).

#### **Support Services**

Financial institutions also provide SME support services, such as business counselling, training, and opportunities for networking (Al-Balushi, and Al-Busaidi, 2019). These services help small and medium-sized enterprises acquire the skills necessary for launching and expanding their businesses successfully (Ongena et al., 2019). Financial institutions may provide seminars on business planning, marketing, and financial administration, for instance. They may also provide individual counselling and mentoring to assist SMEs in overcoming particular obstacles.

#### **Risk Management**

Financial institutions encounter a variety of risk management challenges (Ongena et al., 2019). Credit risk, market risk, operational risk, and reputational risk are some of these obstacles. Credit risk is the possibility that a creditor will default on a

loan or other financial obligation. Market risk is the risk of incurring losses due to changes in market conditions, including fluctuations in interest rates, exchange rates, and asset prices (Ongena et al., 2019).

#### **Technological Disruption**

Financial institutions also confront significant technological disruption-related challenges (Silva & de Souza, 2018). New technologies, such as blockchain, artificial intelligence, and fintech platforms, are reshaping the financial industry by introducing new opportunities and threats. Financial institutions must adapt by investing in new technologies, developing new business models, and forming partnerships with fintech companies (Tabak et al., 2016).

### ***Role of Financial Institutions in Providing Financial Inclusion***

Financial inclusion aids in delivering the inexpensive and available financial services to all individuals and enterprises, regardless of socioeconomic status. Financial inclusion seeks to equip individuals to manage their financial lives, enhance their economic opportunities, and completely participate in the economy.

#### ***Importance of Financial Inclusion***

Financial inclusion is essential for fostering economic expansion and reducing destitution. When individuals and businesses have access to financial services such as savings accounts, loans, and insurance, they are able to invest in their futures, grow their enterprises, and mitigate risks. Financial inclusion promotes social inclusion by enabling women and low-income individuals to access financial services and completely participate in the economy.

*Organisations helping in the economic growth of Oman*

some of the services offered by financial institutions to promote financial inclusion:

Organization Name	Description	Focus Area
<b>Public Authority for Investment Promotion and Export Development (Ithraa)</b>	Government agency responsible for promoting and facilitating investment and exports in Oman	Investment promotion and export development
<b>Oman Development Bank</b>	State-owned development bank that provides financing and other support to small and medium-sized enterprises (SMEs)	SME development and financing
<b>SME Development Fund</b>	Government fund that provides financing and other support to SMEs	SME development and financing
<b>Oman Technology Fund</b>	Government fund that supports startups and emerging technology companies	Technology entrepreneurship and innovation
<b>Riyada</b>	Government agency responsible for promoting entrepreneurship and supporting SMEs	SME development and entrepreneurship support
<b>Oman Chamber of Commerce and Industry</b>	Non-profit organization representing the interests of the private sector in Oman	Business advocacy and development
<b>Oman Investment Authority</b>	Government agency responsible for managing and promoting investment in Oman	Investment promotion and management
<b>Oman National Investments Development Company (TANMIA)</b>	Government agency responsible for promoting investment and supporting economic diversification in Oman	Investment promotion and economic diversification
<b>Oman Society for Petroleum Services (OPAL)</b>	Industry association representing companies in the oil and gas sector in Oman	Business advocacy and development in the oil and gas sector
<b>Information Technology Authority</b>	Government agency responsible for promoting and developing the IT sector in Oman	IT sector development and promotion

**Savings Accounts**

Savings accounts are a necessary financial service that allow individuals to save money and earn interest. To make savings accounts accessible to a broad variety of individuals, financial institutions offer a variety of savings accounts with various characteristics, such as no minimum balance requirements and inexpensive fees.

**Loans**

Loans are an essential financial service that allow individuals and enterprises to invest in the future. The loan products provided by financial institutions include microloans, which are tiny loans designed for low-income individuals and small businesses.

**Insurance**

Insurance is a necessary financial service that assists individuals and

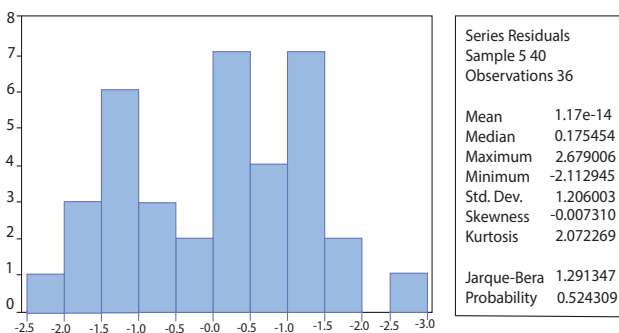


Figure 1 (Al-Maskari, 2021)

**Services Offered by Financial Institutions to Promote Financial Inclusion**

Financial institutions aids in providing a variety of financial services that allow individuals and organisations to access and administer their finances. The following are

enterprises in risk management. To protect individuals and businesses against unforeseen losses, financial institutions provide a variety of insurance products, including health insurance, life insurance, and agricultural insurance (Tabak et al., 2016).

#### Mobile Banking

Mobile banking is an easy and convenient method for individuals to gain access to financial services. Individuals can monitor their account balances, transfer funds, and pay expenses using mobile banking applications provided by financial institutions (Zhou & Leng, 2018).

### **3. Methodology**

#### **Literature Review**

A comprehensive literature review is formed to identify academic articles, books, and reports pertinent to the topic of financial institutions and their role in fostering entrepreneurship and economic growth. Various academic databases, including Google Scholar, and JSTOR are used to conduct the literature review.

#### **Data Collection**

This research is primarily based on the secondary research. The data attained for this study is derived from secondary sources present on net.

#### **Data Analysis**

The collected data is analysed using qualitative content analysis techniques in order to identify patterns associated with the role of financial institutions in fostering entrepreneurship and economic growth. The findings from the literature review and data analysis are synthesised in order to provide a comprehensive overview of the role of financial institutions in fostering entrepreneurship and economic growth.

#### **Limitations**

This research is based on the secondary research and the quantitative research is absent.

### **4. Analysis**

Growth of the economy comprises of the gradual rise in the production of commodities and services in an economy. This is assessed by the growth rate of gross domestic product (GDP) and is an important indication of an economy's health. Economic growth is fueled by a variety of factors, including technology innovation, infrastructural investment, and a trained workforce.

By giving entrepreneurs and small firms access to finance, institutions play a crucial part in fostering entrepreneurship. Financial institutions provide a variety of funding choices, including loans, lines of credit, and venture capital. Capital is necessary for launching and expanding a firm. Entrepreneurs may invest in their companies, recruit staff, and buy supplies and equipment thanks to these funding solutions. Financial institutions also provide alternative financing choices like peer-to-peer lending and crowdfunding, which let business owners get money from a lot of different investors. For entrepreneurs who might not be eligible for traditional funding owing to a lack of collateral or a poor credit history, these financing solutions might be especially helpful (Al-Azri, and Al-Habsi, 2019).

Entrepreneurship is vital to encouraging economic progress. Entrepreneurs start new enterprises, which boosts competition and innovation, resulting in job creation and increased productivity. They also help to build new industries, which helps to encourage economic growth.

Financial institutions are critical in fostering entrepreneurship and economic progress. They lend money to entrepreneurs and small businesses so they may invest in new technology, develop their operations, and create employment. Financial institutions also provide support services such as business coaching, training, and networking opportunities to assist entrepreneurs build the skills necessary for success (Demirguc-

Kunt & Klapper, 2018).

Organizations from a financial background encourage economic growth by enabling the movement of money in the economy, controlling risks, and promoting entrepreneurship (Demirguc-Kunt & Klapper, 2018). By providing financial services such as insurance and risk management, financial institutions help businesses and individuals to mitigate potential losses, which contributes to economic stability and growth.

Financial institutions contribute to the whole ecosystem that fosters entrepreneurship in addition to giving financing and support. Financial institutions collaborate with other groups to foster an environment that supports innovation and entrepreneurship, including company accelerators, incubators, and co-working spaces. Financial institutions contribute to the development of a positive entrepreneurial ecosystem by working with these organizations.

The role of financial institutions in many nations, SMEs play a significant role in economic development and job creation. Accessing capital from conventional sources, such as banks, can be particularly difficult for SMEs. Financial institutions play a crucial role in financing small and medium-sized enterprises (SMEs), allowing them to develop and contribute to the economy as a whole.

SME financing is provided by financial institutions through various channels, including loans, lines of credit, and equity financing. In addition to providing capital, financial institutions offer support services to assist SMEs in better their operations and growing their market competitiveness. Business planning, financial administration, and marketing are included in these support services.

In addition, financial institutions facilitate economic growth by providing businesses and individuals with financial advice and direction. They assist individuals in saving and investing their money prudently, as well as businesses in making growth- and development-supporting financial decisions.

Financial institutions manage both their own risks and those of their consumers. In order to operate within acceptable levels of risk, they must adhere to regulations and guidelines. In addition to managing risks associated with their investments, such as market risks and credit risks, financial institutions also manage risks associated with their investments.

Financial institutions also provide networking opportunities, such as business incubators and accelerators, which unite entrepreneurs, investors, and other members of the entrepreneurial ecosystem. These networks offer entrepreneurs access to expertise, resources, and potential clients and investors.

Ecosystem Financial institutions play an important role in the development and maintenance of the entrepreneurial ecosystem (Lin et al., 2018). The entrepreneurial ecosystem is the network of organisations, institutions, and individuals that encourage entrepreneurship and innovation in a particular region or industry. Financial institutions are essential to this ecosystem because they provide entrepreneurs with the financial resources and support services they need to launch and develop their enterprises.

SMEs have primary role within economy by creating jobs, fostering innovation, and fostering economic development. However, small and medium-sized enterprises frequently encounter significant barriers to financing (Lin et al., 2018). As a consequence, many SMEs struggle to secure the capital they need to launch and expand.

In addition to these support services, financial institutions play a crucial role in the development and maintenance of the SME ecosystem. This ecosystem comprises government agencies, industry associations, and other stakeholders that support small and medium-sized enterprises. These stakeholders collaborate with financial institutions to make the favourable environment for small and medium-sized enterprises (SMEs), such as providing access

to financing options and other resources.

Thus, financial institutions play a crucial role in the financing of small and medium-sized enterprises (SMEs) by providing a variety of financing options and support services. Through these efforts, financial institutions assist SME entrepreneurs in launching and expanding successful businesses, thereby creating employment and contributing to economic growth (Ongena et al., 2019).

Financial institutions need to invest in comprehensive risk management frameworks, compliance infrastructure, and new technologies to address these challenges. In doing so, they can continue to provide vital financial services and support economic development while also managing risk and ensuring regulatory compliance.

Financial education is an essential element of financial inclusion. Financial institutions provide programmes and resources for financial education to help individuals and enterprises acquire the knowledge and skills necessary for effective financial management. Financial institutions deliver different financial services that enable individuals and enterprises to access and manage their finances. Financial inclusion is crucial for fostering economic development, reducing poverty, and fostering social inclusion.

Entrepreneurs can also get help from financial institutions in the form of business coaching, training, and networking chances. These services help businesspeople learn the skills they need to start and grow their businesses successfully. For instance, financial institutions may give workshops on how to plan a business, market it, and manage money. They may also give entrepreneurs one-on-one teaching and mentoring to help them deal with certain problems.

Financial institutions also offer networking chances, such as business incubators and accelerators, which bring together entrepreneurs, investors, and other people involved in the entrepreneurial ecosystem. These networks give

entrepreneurs access to experts, tools, customers and investors who might be interested in their business.

Ecosystem Financial companies are also a key part of building and supporting the ecosystem for entrepreneurs. An entrepreneurial ecosystem is a group of organization, institutions, and people who work together to encourage business and new ideas in a certain area or field. Financial companies are a very important part of this ecosystem because they give entrepreneurs the money and help they need to start and grow their businesses.

Financial institutions work with other players in the entrepreneurial ecosystem, like government agencies, colleges, and industry groups, to create an environment that helps entrepreneurs succeed. For example, universities and financial institutions may work together to help train and support student businesses. They might also work with government agencies to help businesses in underserved areas get financing and other resources. Thus, financial institutions play a key part in promoting entrepreneurship by offering capital, and support services, and building the entrepreneurial ecosystem. Financial institutions help entrepreneurs start and grow great businesses, which creates jobs and helps the economy grow.

Financial institutions collaborate with other entrepreneurial ecosystem stakeholders, such as government agencies, universities, and industry associations, to foster an entrepreneurial environment. For instance, financial institutions may collaborate with universities to provide student entrepreneurs with training and support services. They may also collaborate with government agencies to provide entrepreneurs in marginalised communities with financing options and other resources (Lin et al., 2018).

By providing capital, support services, and constructing the entrepreneurial ecosystem, financial institutions play a crucial role in fostering entrepreneurship. Financial institutions assist entrepreneurs in



starting and expanding successful businesses, thereby creating employment and contributing to economic growth.

## 5. Conclusion

Financial institutions have a significant role in fostering entrepreneurship, economic development, and the expansion of small and medium-sized businesses. They provide entrepreneurs with funding options such as loans, venture capital, and crowdfunding so that they can invest in new technology, expand their operations, and create employment. In addition to providing

entrepreneurs with counselling, training, and networking opportunities, financial institutions also offer support services such as business mentoring. In addition, they manage both their own and their customers' risks by adhering to regulations and policies. In addition to collaborating with other organisations, financial institutions cultivate an entrepreneurial ecosystem that encourages innovation and entrepreneurship. Financial institutions assist SME entrepreneurs in launching and expanding successful businesses, thereby generating jobs and contributing to economic expansion.

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